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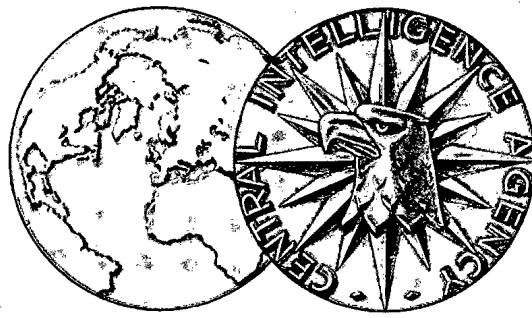
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# WEEKLY SUMMARY



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## H I G H L I G H T S

Even the chronically troubled areas of the world were relatively quiet last week, with no significant gains being registered by the East or West in the smoldering "cold war." The nations of Western Europe continued to mark time while anxiously awaiting both the outcome of current discussions on the British dollar crisis and the decision of the US Congress on the Military Aid Program.

In the Middle East, prospects for reaching a settlement of the Palestine issue before the UN General Assembly reconvenes remain distinctly poor (see page 7). And in Eastern Europe, the Kremlin is still preoccupied with finding a solution to the basically insoluble problem of growing nationalist opposition to Soviet domination and exploitation (see page 14).

Meanwhile, the Chinese Communists are edging southward without haste and meeting no particular opposition (see page 9), while in Indonesia, Dutch and Republican officials are busy with preparations for the crucial "cease-fire" order (see page 10).

## WESTERN EUROPE

### GERMANY

**Berlin Hardships** Deteriorating economic conditions in western Berlin are causing increased personal hardships and will probably result in considerably lowered morale before winter. Almost one-third of the total population in the western sectors is unemployed, existing on marginal or submarginal incomes directly or indirectly derived from public funds. Of the approximately 636,000 people in this unproductive group, 137,000 receive direct relief, 255,000 are socialized insurance pensioners, and 244,000 receive unemployment compensation. In addition, there are at least 100,000 people earning unsatisfactory incomes. This group includes those Germans who live in the western sectors but receive less than 60% of their income in west marks and others whose business or trade has been ruined as a result of the split in the administration and economy of the city. The unemployment situation will be even further aggravated if the Berlin city government implements proposed drastic cuts in personnel and municipal operations in an attempt to reduce the critical budgetary deficit.

**Electoral Tactics** British relaxation of party-licensing restrictions in the UK Zone probably will improve the prospects of the Social Democratic Party (SPD) in the forthcoming federal elections at the expense of the party's major rival, the Christian Democratic Union (CDU). By broadening the scope of activities of the small rightist parties, which are a threat almost exclusively to the CDU, the UK may materially strengthen the SPD in the UK Zone, offsetting its poorer chances in certain states in other zones. An SPD-dominated west German government

**SECRET****GERMANY**

would be the one most susceptible to British influence, and its program would approximate most closely British objectives. Moreover, the more liberal British attitude toward the rightist parties may reduce the appeal of clandestine nationalist groups by providing a safety-valve for rightist sympathizers.

**UNITED KINGDOM**

**Conservative Platform** Recent speeches by England's Conservative Party leaders, Churchill and Eden, illustrate the campaign dilemma confronting the Party in the general elections which must be held not later than next July. These pronouncements showed no radical change from traditional Conservative policies nor any clear-cut alternative to those of the present Labor Government. On the contrary, the statements illustrated the difficulty confronting the Conservatives in emphasizing governmental economies without appearing to oppose the benefits of the welfare state. Principally, the Conservatives advocated: (1) earliest possible removal of restrictive controls and liberal doses of free enterprise in order to increase industrial efficiency by encouraging competition and worker initiative and incentive; (2) reduction of income and purchase taxes--presumably to be made possible by the savings gained through more efficient government administration; (3) reorganization and decentralization of the control of nationalized industries; and (4) decentralized, more efficient control of social services already established. Although the Conservative program offers no clear-cut, stimulating alternative to Labor Party policy, the Conservatives find reasons for

**SECRET****UNITED KINGDOM**

increasing optimism in the greatly reduced majority by which the Laborites retained their Parliamentary seat in the recent Leeds by-election, the sweeping conservative victories in the last local elections, and the loss of prestige suffered by the Labor Government during the recent dock strike. Moreover, although the two Parties appear at present to be quite evenly balanced in terms of popular support, the Conservatives would profit if the current dollar crisis leads to the imposition of more severe austerity measures and if, as seems likely, further unrest develops in the trade union ranks.

**Dollar Deficit** The recent British statement that the sterling area dollar deficit for 1949-50 will be \$578 million more than originally estimated has raised a major problem for the Organization for European Economic Cooperation (OEEC). Although the UK has denied that it was at this time requesting additional aid, it will undoubtedly seek a substantially increased allocation of ECA dollars for the coming year. Such a grant to the UK would necessarily involve cuts in the dollar allocations to other ECA nations and might thus produce a serious dispute in the OEEC. Resentment against the UK would be strong and the other OEEC states would almost certainly question the adequacy of British recovery plans to meet the ECA objective of eliminating the extraordinary UK dollar deficit by 1952. One possible result of the dispute might well be pressure from the ECA nations for a modification of present ECA policies away from allocations on the basis of dollar deficits and toward more direct methods of stimulating and financing trade.

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**SECRET****E A S T E R N   E U R O P E****CZECHOSLOVAKIA**

**Steel Production**    The reduction by one third in shipments of high-grade Swedish iron ore will cause a sharp drop in Czechoslovak steel production and contribute to an over-all decline in industrial activity until the steel industry can be converted to handle lower-grade ore. Although plans had been completed for converting the iron and steel industry so that blast furnaces could use Czechoslovakia's ample supplies of low-grade ore as well as ore imported from the USSR, little progress had been made in implementing these plans. The sudden reduction of Swedish imports will make it impossible for Czechoslovakia to meet the 1949 steel production target, thus aggravating the critical raw material shortages already afflicting the Czechoslovak economy.

**FINLAND**

**Wage Demands**    Recent wage increase demands by ten Finnish trade unions, in reaction to the devaluation of the Finnmark, point up the extremely delicate position of the Fagerholm government in its attempt both to satisfy labor and to expand Finland's foreign trade. Although the wage demands are prompted in part by the loss of real income following the devaluation of the Finnmark, they are being actively supported by the Communists who hope to profit from another inflationary spiral in the Finnish economy. If the Government should grant labor's demands, the inflationary strains on the country's economy might eventually become critical. Disregard of Labor's demands, however, would provide grounds for general strike action,

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**SECRET****FINLAND**

an equally dangerous alternative, and would also increase Communist influence in the trade union movement at the expense of the Social Democrats. The Government will probably attempt to follow a middle course by reducing income taxes as well as prices on basic foods.

**YUGOSLAVIA**

**Greek Policy** Although Tito has publicly stated his intentions to close the Yugoslav-Greek border against Greek guerrillas, he will continue to move cautiously in implementing his new policy in order to avoid lending credence to Cominform charges that he is a renegade Communist "selling out" the movement of international communism. Recent evidence that Yugoslavia is actually adopting a friendlier attitude toward the Greek Government has been limited to such reports as: (1) Yugoslav guard units on the Greek border have been replaced, possibly in order to remove Yugoslavs who had been friendly with the Greek guerrillas; (2) a Yugoslav officer remarked in the presence of a Greek army officer that the Yugoslav border was closed and that armed guerrilla personnel entering Yugoslavia would be apprehended, disarmed, and interned; and (3) a Yugoslav unit presented arms during the lowering of the Greek colors by a Greek border unit.

The timing of further movement toward the West by Tito will depend to some extent on the intensity of the Cominform denunciation of his regime. Nevertheless, Tito probably hopes that by closing the Yugoslav-Greek border he will improve his chances of obtaining economic aid from the West, reduce the possibility of Cominform-instigated infiltration of Yugoslavia from Greece, and be able to lay the groundwork for eventual friendly relations with at least one neighboring country.

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**SECRET****NEAR EAST - AFRICA****PALESTINE**

**Lausanne Prospects** Although the Palestine Conciliation Commission (PCC) recently reconvened at Lausanne amid expressions of general optimism, it is expected to accomplish little beyond bridging the gap until the September meeting of the General Assembly. While it is hoped that both Arab and Israeli delegates have returned to Lausanne with authority to take definitive action, neither side has as yet offered any major concessions. The Arabs apparently intend to mark time in the hope that Arab interests will be better served by the General Assembly where the issue will be lodged if the PCC fails in its mission. The Israelis, on the other hand, fear a UN-imposed settlement and may offer minor concessions in an effort to keep the Lausanne negotiations alive and thus postpone GA discussion of the problem.

**EGYPT**

**New Cabinet** The formation by King Farouk on 26 July of a coalition cabinet under a neutral premier, Hussein Sirry, to replace the minority government of Abdel Hadi provides Egypt with its most representative government in many years. Emphasizing the neutral character of the new government are: (1) Prime Minister Hussein Sirry is an independent who holds the portfolios of Foreign Affairs and Interior, as well as the Premiership; and (2) the remaining posts are distributed among the four main parties as well as several minor ones. Of particular significance, Egypt's largest party, the Wafd, is included in the government for the first time since 1944.

## **EGYPT**

Although the stabilizing influence of the new government may provide a more favorable atmosphere for foreign governments to do business with Egypt, the Sirry Government probably will not conclude any new agreements with the West because it is an interim government, expected to remain in office only until after the October elections. It may, however, prepare the ground for succeeding governments to conclude such accords. In any event, its representative character increases the likelihood that the fall elections will be conducted with a fair degree of impartiality. The new government should also prove more effective than its predecessors in handling terrorist activities, whether instigated by the Communists or the outlawed extremist group, the Moslem Brothers.

## F A R E A S T

**Pacific Union** Two weeks after announcement of the proposed Pacific Union, the majority of the Far Eastern nations remain decidedly cool toward the idea of a pact handicapped both by lack of US support and by the inclusion of the discredited Chinese Nationalist regime. Future development of the proposed union now depends largely upon the result of current talks between Ambassador Romulo, Philippine representative at the UN, who has been charged with union planning, and President Quirino. Romulo considers the support of India vital to any Asian union and feels that Australia and New Zealand should be included to avoid the implication of an anti-white bias. It now appears, therefore, that either the union proposed by Chiang and Quirino will fail from lack of encouragement before it is formally constituted; or Romulo may be successful in easing Chiang into the background and laying the foundations of a union more likely to receive widespread support.

## C H I N A

**Military Progress** The fierce intensity of earlier Chinese Communist offensives has been lacking thus far in the current Changsha-Hengyang offensive. Edging forward without undue haste and meeting no opposition, the Communist forces have permitted Nationalist defenders ample time to "retire to new positions." The Communist capture of Chuchow, at the junction of the Kiangsi-Chekiang and Canton-Hankow rail lines, cuts off Changsha from Nationalist positions to the south. Following the reported withdrawal of Pai Chung-hsi's regular forces, Changsha is now defended only by a provincial garrison, and the city's fall is imminent. A small



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**CHINA**

Communist force further southeast, which had begun to push south toward the Kwangtung border, is stalled in the region just south of its point of departure near Kian. Other military activity took place in the Ichang area of the Yangtze and in western Shensi, near Paochi. The small Communist force, which took Ichang and Shasi, crossed the Yangtze and began moving south. In Shensi, reinforced Communist troops consolidated their hold on the Paochi area from where it is possible either to move on Ma Pu-fang's forces in southeastern Kansu or to pursue Hu Tsung-nan's troops guarding the northern approaches to Szechwan.

**Tibetan Independence**     The Government of Tibet, which in mid-July cut radio communications between the Nationalist Government and its officials in Lhasa, has now indicated that it intends to deport some three hundred Chinese, including official Nationalist Government representatives. Although this move ostensibly is being made as protection against the growing Communist menace, the Tibet Government is taking advantage of the declining prestige and authority of the Chinese Nationalists to sever the tenuous Chinese sovereignty over Tibet. Meanwhile, the Government of India, which desires that Chinese influence be eliminated from Tibet, will welcome any loosening of the ties between the Tibetans and Nationalist China.

**INDONESIA**

**Cease-Fire Order**     Neither the Dutch nor the Indonesian Republicans can expect a high degree of effectiveness in the cease-fire order soon to be issued by the Republic of Indonesia, and the Dutch still may use any

## **INDONESIA**

Republican weakness in this respect to hamper the forthcoming roundtable conference at The Hague. Although the restored Republic of Indonesia has been able, with the help of Dutch arms, to maintain law and order in the Jogjakarta residency, the effectiveness of the forthcoming cease-fire order throughout Java and Sumatra may be reduced because: (1) Republican strength is spread more thinly; (2) communications are difficult to maintain; and (3) dissident groups are stronger. At present, both Dutch and Republicans are working with UN representatives on plans for the cease-fire order, and native military leaders have been called from Republican outposts to receive instructions. The Dutch have also arranged for technical assistance to the Republicans and have made available the radio facilities necessary for transmitting commands to some of the more isolated Republican military units.

## **AUSTRALIA**

**Coal Strike** Australia's Labor Government is apparently gaining the ascendancy in its campaign to break the Communist-led coal strike which has paralyzed the country's industry for the past month. Although drastic governmental measures may have alienated many rank-and-file laborers, the general public apparently approves such measures as the utilization of military units to: (1) unload coal from strike-bound steamers; and (2) work open-cut mines in Queensland and New South Wales. In addition, the Government already has the support of land transport unions in these areas for its plan to move coal thus obtained to the cities and of some Queensland miners who have agreed to return to work. Although only enough coal will be obtained



## **AUSTRALIA**

**by these methods to prevent a collapse of the most essential public services, the present crisis has apparently prepared the Government for a showdown on the general question of recurrent coal strikes, and organized labor's dominant position in Australia may well be weakened as popular support for the Government's "hard" policy increases.**

## WESTERN HEMISPHERE

### ARGENTINA

**Economic Prospects**     In marked contrast to its inertia prior to the conclusion of the Anglo-Argentine trade agreement, the Argentine Government is now moving with new confidence and decisiveness toward breaking the politico-economic crisis long threatening its stability. Apparently bolstered by the assurance of receiving minimum fuel requirements and needed supplies and equipment for industry and agriculture from the UK, the Government recently removed price ceilings from milk, oils, edible fats, soap, and tallow and eliminated the meat subsidy in the federal capital. Prices on these necessities immediately jumped by 50-100%, and labor is expected to counter shortly with new wage demands, which Peron will have no alternative but to grant, regardless of the resulting impetus to inflation. Despite the risk of further inflation and possible serious army disaffection over new concessions to labor, Peron apparently hopes through relaxation of price controls and the elimination of the meat subsidy to expand exports by reducing domestic consumption and by establishing competitive relationships between domestic production costs and world market prices. Meanwhile, with the UK agreement signed, Peron has also revived and intensified his efforts to improve trade relations with western Europe and the Satellites. Despite fears that US-Argentine relations would suffer as a consequence of Argentina's failure to obtain significant US assistance, Peron appears to be continuing his efforts to establish more favorable relations with the US.

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## NATIONALISM IN THE SATELLITES

Although the widespread purges of Satellite Communist parties during the past year were motivated largely by the Kremlin's desire to crush a rising "nationalistic" sentiment, there remains little likelihood that resurgent nationalism will lead any of the Satellites to emulate Tito's nationalist revolt in the near future. In this eastern European nationalism, however, the Kremlin faces an elusive opponent which grows in proportion to the Kremlin's efforts to destroy it. Many of the rank and file Satellite Party members who have adopted the economic and social theories of Communism are becoming increasingly restive under Soviet exploitation of their nations. This feeling, which is also nurtured by a long tradition of anti-Russianism, will undoubtedly have continuing though ineffective repercussions within the various Satellite Communist hierarchies as Party leaders continue to be faced with the choice of supporting their own national interests or accepting mounting exploitation by the Kremlin.

At the present time, however, Satellite "nationalism," both within and outside the Communist parties, is an undisciplined and leaderless force which the Kremlin is fully capable of controlling. Moreover, growing numbers of thoroughly loyal Kremlin followers being installed in power in the Satellites are consolidating their control of the Satellite security forces through a combination of blind loyalty, intensive espionage, and ruthless terror. Nationalist Communists who have succeeded in reaching positions of authority either have been, or are being, eliminated. The Kremlin's successful ouster, without overt repercussions, of such popular Communist leaders as Gomulka (Poland), Rajk (Hungary), and Kostov (Bulgaria) is sufficient warning to other Satellite leaders with "nationalistic" tendencies.

In Poland, where nationalism is probably as strongly ingrained in the Communists as anywhere in eastern Europe, tight Kremlin controls and the Soviet occupation troops render any "anti-nationalist" coup within the Party highly improbable at this time. The least secure sector of the Soviet power position in eastern Europe is located in isolated and tiny Albania, but even there the USSR has been making strenuous efforts to maintain an unpopular pro-Soviet group in power through repeated purges of "nationalist" elements. In Bulgaria and Hungary, effective nationalist opposition has been eliminated for the present as a result of the recent dismissal and disgrace of Bulgarian economic czar Kostov and Hungarian Foreign Minister Rajk. Czechoslovakia remains the only Satellite where the Communist Party has not been publicly purged during the last year of "nationalist" tendencies and elements.

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